



Bureau of Land Management  
Inspection and Enforcement  
Program for Oil and Gas Operations  
on Federal and Indian Lands



Program Overview  
and  
Recent Initiatives for Improvement

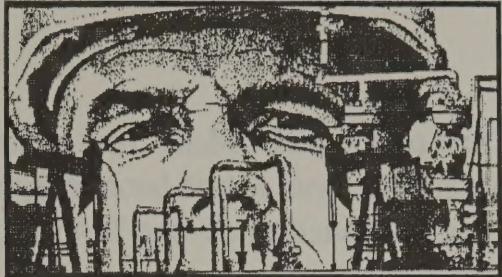
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## I. EXECUTIVE SUMMARY



The Bureau of Land Management (BLM) is responsible for the approval and supervision of all oil and gas operations on Federal and Indian lands, with the exception of Osage Tribal lands. This responsibility includes inspection for compliance with Federal requirements pertaining to drilling, production accountability, well plugging, environmental protection and safety. This responsibility also includes enforcement of those requirements and associated penalties, and investigation of suspected criminal activity. Criminal investigations are carried out under BLM's Law Enforcement Program. BLM's jurisdiction encompasses more than 23,000 Federal and Indian leases involving about 83,000 oil and gas wells which produced over 1 trillion cubic feet of natural gas and 156 million barrels of oil in 1988. Approximately 10% of the oil production and 11% of the gas production comes from 3788 producing Indian leases. In 1989 BLM's staff of 117 field inspectors conducted some 12,225 production inspections covering more than 75% of Indian oil production, 40% of Indian gas production, 70% of Federal gas production and more than 40% of Federal oil production. BLM's inspection accomplishments also included more than 2500 inspections of drilling, abandonment and associated operations to protect public health and safety, the environment, and ensure proper development of Federal and Indian oil and gas resources.

During the past two years, the Senate Select Committee on Indian Affairs, the Office of the Inspector General (OIG) and the General Accounting Office (GAO) have conducted separate investigations of BLM's Inspection and Enforcement Program with particular emphasis on production accountability responsibilities. These investigative bodies have been critical of the effectiveness of BLM's Inspection and Enforcement Program in ensuring that production from Federal and Indian lands is properly accounted for and accurately reported to the Government. Further, the Senate Committee alleged that at least one purchaser of Indian oil has stolen a considerable amount of oil and that BLM has not taken adequate steps to detect or investigate such alleged thefts.

In large part as a result of the preliminary findings of these investigations, BLM initiated a broad review of the Inspection and Enforcement Program with emphasis on production accountability and Indian trust responsibilities. This review entailed reassessments of BLM's enforcement authority, policy and guidance provided to field offices, internal controls, coordination with other agencies, and coordination with industry. The review confirmed that BLM has substantial legislative and regulatory authority and requirements in place to address the concerns of the various investiga-



## **Executive Summary (Cont.)**

tive bodies. The review also revealed that, for the most part, BLM's Inspection and Enforcement workforce is adequately trained and experienced and is large enough to inspect all high production leases or those with a history of non-compliance annually as mandated by Congress.

The investigations of the Senate, OIG and GAO as well as BLM's own program review raised several issues regarding BLM's Inspection and Enforcement Program, including the following:

- unclear criminal investigative authority on Indian lands;
- reliance on purchaser measurements of oil sales;
- poor coordination between Law Enforcement and Inspection & Enforcement personnel on theft reports;
- lack of designated contacts for theft reports;
- unidentified potential thefts by Koch Oil;
- insufficient checks on certain measurement actions;
- inadequate enforcement of environmental protection requirements;
- inadequate support and guidance to the field;
- inadequate technical expertise on the part of managers;
- ineffective coordination with other agencies on production accountability;
- ineffective coordination with industry on site security.

To address these issues, BLM has taken or is pursuing the following actions which it believes will address the concerns raised by the various bodies, strengthen its program and improve service to the Indians:

- clarified the Bureau's investigative authority;
- initiated rulemaking actions to place more responsibility on operators to independently verify sales;
- established coordination procedures and guidelines for theft investigation and reporting;
- designated contacts and notified Indian tribes and allottees;
- intensified oversight of Koch Oil;
- initiated revisions to its inspection and enforcement strategy;
- increased support to the field;
- developing technical training for managers;



- developing training for personnel inspecting for environmental compliance;
- developed an inter-agency memorandum of understanding and steering committee;
- developing an Indian outreach program; and
- developing cooperative actions with industry.

The inspection and enforcement functions for oil and gas operations on Federal and Indian lands were transferred to BLM from the Minerals Management Service (MMS) in 1982. BLM believes that the reasons for that transfer are still valid. Specifically, 1) the inspection and enforcement function is integral to BLM's multiple use and resource protection decisions; 2) the Inspection and Enforcement function is an integral and interdependent part of the oversight of oil and gas operations and cannot be efficiently separated; and 3) retaining all operations and resource oversight functions in a single agency streamlines interagency management relationships and provides better service to the public and the Indians.

For these reasons, BLM does not support the recommendation of the Senate Investigative Committee that BLM's inspection and enforcement functions on Indian lands be returned to the Minerals Management Service.

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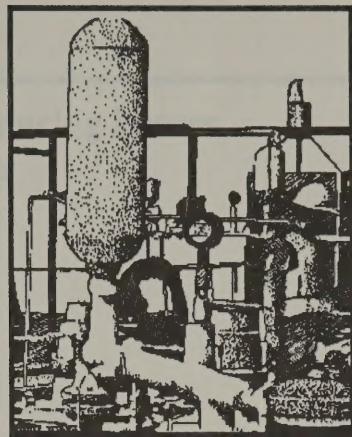
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## **II. PROGRAM BACKGROUND**

### **A. Program Objectives and Responsibilities**



BLM is responsible for the oversight of oil and gas operations on Federal and Indian lands with the exception of Osage Tribal lands. The objectives of the oil and gas oversight program are to protect the environment, public health, and public safety; to ensure that the public's oil and gas resources are properly developed in a manner that maximizes recovery while minimizing waste; and to ensure the proper accounting of all production from Federal and Indian lands.

This responsibility includes inspection of oil and gas operations to determine compliance with applicable statutes, regulations, operating orders, lease terms and permit conditions pertaining to drilling, production, well plugging and abandonment, and other requirements related to lease administration. BLM inspectors have broad responsibilities and authority with respect to safety, protection of the environment, proper disposition of production, accurate reporting of production and adequate lease site security.

When inspectors identify noncompliance, they initiate enforcement actions. BLM is authorized to use a number of enforcement tools to ensure compliance, e.g., imposing assessments or civil penalties, ordering a shut-down of operations, and cancelling leases. Operators are provided opportunity to appeal penalty actions taken against them. Where criminal actions are suspected, BLM law enforcement special agents and rangers conduct investigations and seek prosecution when appropriate.

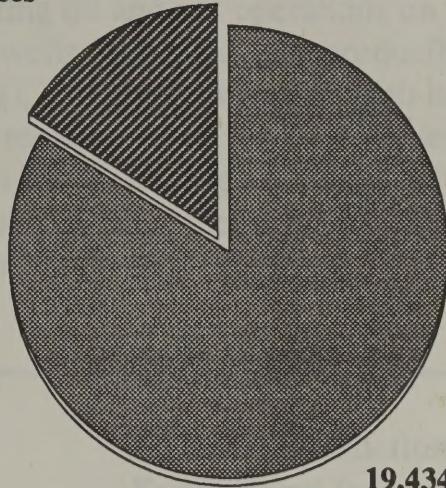
The BLM and the Minerals Management Service (MMS) both play key roles in ensuring that oil and gas production is properly accounted for and all royalties due on that production are collected and disbursed to the Treasury, the States and the Indians as appropriate. BLM has the responsibility to verify in the field that production measured and reported is correct, and MMS has the responsibility to ensure that proper royalties are paid on all sales of that production. BLM, MMS and the Bureau of Indian Affairs (BIA) work cooperatively under a Memorandum of Understanding to share information and ensure coordination of operations. The graph at the top of the next page shows the number of oil and gas producing leases under BLM's jurisdiction.



**Figure 1**

**Federal and Indian Oil and Gas Producing Leases  
Under BLM Jurisdiction  
FY 1989**

**3,788 Indian Leases**



**19,434 Federal Leases**

**B. Inspection and Enforcement Authority**

BLM's basic inspection and enforcement authority for oil and gas operations on Federal lands derives from the Mineral Leasing Act of 1920, as amended, and the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA). The implementing regulations are contained at 43 CFR Part 3160. Onshore Oil and Gas Orders and Notices to Lessees provide specific operational standards for industry, including Order No. 1, Approvals; Order No. 2, Drilling Operations; Order No. 3, Site Security; Order No. 4, Oil Measurement; Order No. 5, Gas Measurement; NTL-2b, Disposal of Produced Water; and NTL-4-A, Waste Prevention and Beneficial Use. Orders 3, 4, and 5 were initiated in 1986 and issued as final rules February 24, 1989. Authority for Inspection and Enforcement on allotted Indian lands is derived from the Indian Mineral Leasing Act of 1909 and for Tribal lands from the Indian Mineral Leasing Act of 1938. The associated regulations are contained in 25 CFR 211 and 212. In addition, FOGRMA gave the Secretary criminal investigative authority relating to oil and gas operations on Indian lands. This authority was delegated to the Bureau of Land Management in December 1982.



## C. Program Description

### 1. Inspections

#### a. BLM Responsibilities

BLM is responsible for inspecting oil and gas operations on 23,222 producing leases containing 83,344 operational wells which includes producible wells (i.e., those producing or capable of producing), and all other wells which have not yet been permanently sealed with cement and reclaimed. Of these, 3,788 leases and 8,905 producible wells are located on Indian lands. During FY 1989, Indian wells produced 17 million barrels of oil and 103 billion cubic feet of gas. Federal wells produced 139 million barrels of oil and 902 billion cubic feet of gas.

Table 1



#### FY 1989 Production of Federal and Indian Oil and Gas Wells under BLM Jurisdiction

	Producing Leases	Producible Wells	Gas Production	Oil Production
Federal	19,434	55,300	902 billion cubic feet	139 million barrels
Indian	3,788	8,905	103 billion cubic feet	17 million barrels



## b. Inspection Types

An inspection is an onsite technical analysis of an oil and gas drilling, production or well plugging and abandonment operation. It includes examination of heavy equipment, analysis of industrial processes and evaluation of procedures and computations for the measurement of oil or gas. It is a complicated process involving numerous technical and regulatory factors which requires the inspector to have a thorough knowledge of oil field operations, standard operating practices and regulations and policies governing the conduct of those operations on Federal and Indian lands, such as environmental protection standards. During FY 1989, 117 inspectors carried out BLM's responsibilities on Federal and Indian lands. Following is a brief description of the major types of inspections:

**Drilling Inspections** are conducted to ensure that the operator complies with the terms and conditions of the lease contract and BLM approved drilling permit. They include an examination of the following:

- Operation of equipment to prevent well blowouts (gushers, oil well fires), to ensure environmental protection and public safety.
- Placement and cementing of well casing to ensure protection of groundwater, other mineral resources as well as the environment.
- Adequacy of the drilling mud program and system to ensure well control, protection of the oil reservoir and poison gas safety.
- Operation of well testing equipment to ensure public safety.
- Surface use as approved for environmental protection.
- Set up and operation of all other equipment required for safe drilling operations.
- Environmental protection measures, e.g., prevention and clean-up of oil spills, disposal of produced water, construction of water pits and sumps, disposal of trash, implementation of wildlife, cultural resource, and vegetative protection measures.





**Well Abandonment Inspections** for both unsuccessful drilling operations and depleted producing wells are conducted to ensure that the operator complies with requirements to restore the well site and properly seal the well with cement as approved by BLM. They cover the following:

- Placement and integrity of cement plugs to ensure protection of the ground water, mineral resources and the surface and subsurface environment.
- Site reclamation for environmental protection, including:
  - removal of structures, equipment and trash;
  - backfilling and reclamation of pits;
  - permanent disposal of drilling and other wastes;
  - grading and recontouring of the site;
  - reseeding of the site with approved vegetation;
  - monitoring to ensure reseeding occurs.



**Production Inspections** are conducted to ensure that the oil or gas is properly handled and treated and the storage facility and/or piping is secure, to identify any potential thefts, and to verify that the oil or gas is accurately measured and properly reported. The inspector examines the following:

- Production handling and storage equipment to ensure that the product is properly treated and prepared for sales as well as for site security compliance.
- Site security to ensure seals are in place and proper records are kept.
- Operator reporting for accuracy and completeness including verification of production volumes reported.
- The testing of oil and gas meters and testing reports to ensure accuracy within approved tolerances.
- Production measurement procedures and equipment (including independent measurement by the inspector).
- Surface use as approved for environmental protection, e.g. prevention and clean-up of oil spills, disposal of produced water, construction of water pits and sumps, disposal of trash, implementation of wildlife protection measures.



## Sample Inspection

*Following is a representative list of tasks that an inspector performs for an inspection of production operations where oil is stored in tanks.*

**Review lease and permit approvals, operation status, and results of last inspection.**

**Verify that oil cannot be diverted without being measured and ensure that valves are sealed with numbered seals and that operator seal records are accurate and current. This involves an examination of the plumbing and valves of one to many wells from the wellhead through oil heater-treaters and separators to the storage tank to the point where the oil is transferred to a truck or pipeline.**

**Verify that wellhead, pumps, pipelines, valves, gauges, meters, heater-treaters, separators and storage tanks are in good condition and safely operating.**

**Measure the oil in the tanks. This involves the following:**

- sampling the oil to determine the amount of water and impurities;
- lowering a plumb bob and tape into the tank to measure the top of the oil before and after the sale;
- measuring the temperature and gravity of the oil;
- calculating the volume of oil which has been sold;
- comparing the results with the producer's/purchaser's record.



**Examine operations for conformance with environmental standards and conditions of approval, e.g., prevention and clean-up of oil spills, disposal of produced water, construction of water pits and sumps, disposal of trash, implementation of wildlife protection measures, watching for oil spills, environmental damage or unapproved operations,**

**Examine and evaluate the producer's and purchaser's measurement equipment, procedures, and volume calculations to ensure conformance with Federal standards.**

**Determine corrective actions required to remedy any problems. This involves assessing the seriousness of the violation, assessing the need for a Notice of Non-Compliance, determining if immediate assessments or penalties or a shut-down of operations is required, and establishing the abatement period.**

**Follow up in the office with documentation of the inspection and any written notices to the operator. Also, compare operator field records with production reported to the MMS and investigate any discrepancies.**



### **c. Inspection Priorities**

Inspection priorities are based on the following criteria:

**potential for the greatest revenue loss to the government or the Indians;**

**potential for damage to the environment;**

**potential threat to public health and safety;**

**and potential for violations based on the operator's past performance.**

Inspection priorities are outlined in BLM's nationwide inspection and enforcement strategy which provides guidance to the field offices. Field managers can plan the utilization of their inspector resources to ensure that the operations which pose the most serious threats to the interests of the government and Indians are inspected. If a producing lease is rated as high priority based on production, it is inspected at least annually. All other high priority inspections, such as drilling or abandonment are conducted as those operations occur. Low priority inspection producing leases are inspected once every three years.

In Fiscal Year 1989, BLM's workforce of **117 oil and gas inspectors** performed **12,225 production inspections** on Federal and Indian leases. Those inspections covered oil and gas operations responsible for 55% of the total oil and gas production on Federal and Indian lands during the year. Over a three year period, all operations responsible for the total Federal and Indian oil and gas production are inspected at least once. Figure 2 on the following page shows the breakdown by oil and gas.



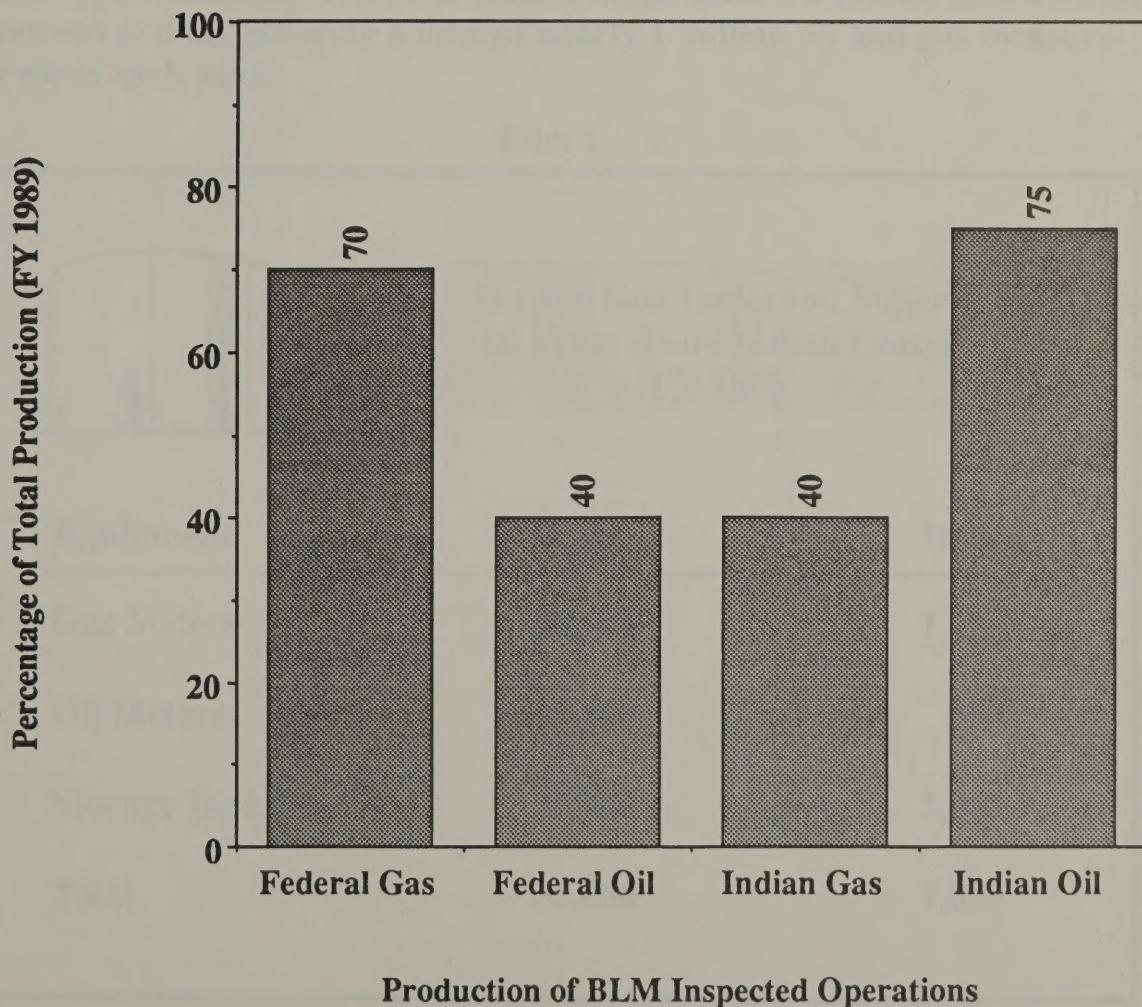
### c. Inspection Priorities

(Continued)

Over a three year period all lease sites with producing operations are inspected at least once.

Figure 2

Production of Inspected Operations As Percentage of Total Production on Federal and Indian Lands (FY 1989)





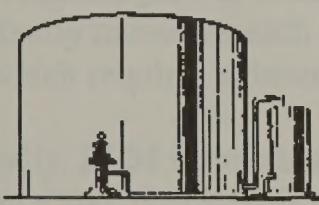
#### **d. Additional Information on Production Inspections**

Although only one of the types of inspections, production inspections are a high priority. The following additional detail describes those types of inspections.

#### **Measurement Actions**

Produced oil is sometimes stored temporarily on the lease site in storage tanks where it is measured manually by a method known as tank gauging, then trucked from the site. More often it is pumped into a pipeline and measured by meters. Gas is always measured through meters. Nearly 55,000 such tanks and meters are located on lease sites under BLM jurisdiction (25,000 storage tanks, 1,400 oil meters and 28,000 gas meters). Of these, approximately 5,000 tanks, 300 oil meters and 1,700 gas meters are located on Indian lands. Hand measurements must be taken by industry each time a sales shipment occurs where oil is transported by truck. Oil meters must be tested for accuracy by the operator every three months and gas meters must be periodically calibrated for accuracy. An estimated 369,000 measurement actions and meter accuracy verifications are conducted by industry on Federal and Indian leases each year. Approximately 60,000 of these actions occur on Indian lands. These measurement actions generate a total of nearly 1 million oil and gas measurement records each year.

**Table 2**



<b>Equipment</b>	<b>Total</b>	<b>Indian</b>
<b>Gas Meters</b>	<b>28,000</b>	<b>1,700</b>
<b>Oil Meters</b>	<b>1,400</b>	<b>300</b>
<b>Storage Tanks</b>	<b>25,000</b>	<b>5,000</b>
<b>Total</b>	<b>55,000</b>	<b>7,000</b>



**d. Additional Information on Production Inspections  
(continued)**

**Classification Levels for Production Inspections**

Producing lease inspections are classified into three levels.

The **Level One Inspection** is designed to identify whether production is being properly handled, measured, and reported and whether company records verify BLM's independent observations.

The **Level Two Inspection** is performed as a followup to problems or concerns identified in Level One inspections and usually involves a more intense examination of a procedure or operating practice that is the suspected source of the problem or concern. For example, it may involve witnessing a subsequent tank gauging or the calibration of a gas meter. Such inspections may also be initiated in response to problems identified by some other source such as MMS in a situation in which the sales report does not reconcile with the production report.

The **Level Three Inspection** is a very detailed and labor intensive production verification inspection. This type of inspection is designed for cases where there is reason to suspect significant production loss due to mishandling of oil or gas production as identified through a Level I or II inspection. The inspection is conducted over an entire production period, usually 30 days in duration. A BLM inspector witnesses or independently measures each and every shipment of oil from the lease during that period, which requires substantial use of inspector resources.

Additionally, BLM inspectors witness individual meter testing and measurement actions on a spot check basis, as part of its efforts to ensure production accountability.

**Record Reviews**

In addition to field inspections, BLM's inspection staff performs document reviews to evaluate production accountability. BLM inspectors compare producer and purchaser measurement records with reported production. They also review volume calculations from meter information provided by industry. An estimated one million volume calculations are made by industry annually for production on Federal and Indian lands.



#### **d. Additional Information on Production Inspections (Continued)**

One of the many factors of concern to the inspector when conducting a production inspection is the identification of possible theft of oil and gas resources. There are basically two types of theft, which require different techniques to identify.

##### **Physical thefts**

Physical theft is the unauthorized removal of oil, gas, or gas condensate from the lease through the production facility plumbing valves or through production lines which have been installed to bypass production meters allowing that portion of the production to be removed without measurement. BLM requirements address these potential sources of theft. Valves must have numbered seals that must be broken in order to operate the valve. The operator is required to maintain records of the seals so that BLM inspectors can identify through a broken or improperly numbered seal if a valve has been improperly accessed. BLM inspectors also check production lines for the existence of any illegal bypasses around measuring devices.

##### **Falsification of Records**

While physical theft is a potential problem, both the industry and BLM recognize that in relative terms, a more serious potential problem lies with what is sometimes referred to as "sophisticated theft". So-called "sophisticated theft" is the manipulation and/or falsification of sales and/or production reports to show that less product was produced or purchased than was actually the case. A major factor affecting the identification and investigation of suspected records falsification is the requirement for close coordination and cooperation between the BLM and MMS in integrating their respective roles in production and royalty accountability. The review and comparison of production and sales reports by MMS cannot be used alone to identify suspected theft. The production reports must be compared with independently measured production and run tickets verified by BLM on the ground.



## **2. Enforcement**

BLM has authority to use a number of enforcement tools to ensure compliance with legislative and regulatory requirements for environmental protection, public health and safety, production accountability and resource recovery. These are discussed below:

### **a. Immediate Enforcement Actions**

Certain instances of noncompliance are of such a serious nature as to warrant the imposition of immediate monetary fines (i.e., assessments) upon discovery. BLM has authority, in these instances, to impose immediate assessments of \$500 per violation per day up to \$5,000. The following violations result in automatic assessments: unapproved drilling or surface disturbance, failure to install well control equipment, and failure to obtain approval prior to well abandonment. In addition, immediate shut-in of operations may be required where operations have been commenced without approval, or where operations could result in immediate, substantial, and adverse impacts on public health and safety, the environment, production accountability, or royalty income. Also, BLM has the authority to charge an operator for actual loss of or damage to Federal or Indian resources or improvements, or to have the operator correct the violation or damage at the sole risk and expense of the operator plus 25% for BLM administrative costs.

### **b. Notice of Non-Compliance and Abatement Period**

When inspections identify non-compliance with other requirements which are not of such a serious nature as to warrant immediate enforcement action, the regulations provide for formal notice to the operator of the noncompliance and a period established for abatement of the violations. If that violation is not corrected within the abatement period, a monetary assessment of \$500 is levied for each day the violation continues for major violations, or a one time assessment of \$250 is levied for minor violations.

### **c. Civil Penalties**

If a major violation continues uncorrected for 20 days past the abatement date, the lessee is liable for civil penalties of up to \$500 per day per violation from the date of the notice of the violation. If the violation continues uncorrected for 40 days beyond the specified abatement date, the lessee is liable for a civil penalty of up to \$5,000 per day per violation not to exceed 60 days from the date of notice. A similar penalty



system with lower dollar amounts imposed is utilized for minor violations after a second chance to correct the violation. In addition to the penalties listed above, any person may be liable for a penalty of up to \$10,000 per day if he refuses to permit lawful entry for inspection or if he knowingly or willfully fails to notify the Bureau by the fifth day after production has begun. Any person who knowingly and willfully commits the following acts is liable for a penalty of up to \$25,000 per day not to exceed 20 days: prepares or submits false, inaccurate or misleading reports; takes, removes, transports, uses or diverts oil or gas without valid legal authority; or purchases, accepts or conveys to another any oil or gas that is known or suspected to be stolen.

#### **d. Criminal Penalties**

Persons committing acts found in the above two paragraphs upon conviction are also subject to criminal penalties which can be a fine of not more than \$50,000 or two years imprisonment or both.

#### **e. Bond Forfeiture**

Prior to the commencement of surface disturbing activities related to drilling operations on Federal lands, a surety or personal bond (typically in the amount of \$10,000 per lease) must be provided. The bond is conditioned upon compliance with all of the terms and conditions of the lease. The bond applies to such items as plugging of wells and reclamation of disturbed lands, payment of Federal royalties and payment of any assessment or civil penalties levied by BLM. When necessary for compliance, the bond is forfeited, but only after the insured and the surety, in the case of surety bonds, has been provided a reasonable period of time to take corrective action. For Indian lands a bond is required upon lease issuance.

#### **f. Lease Cancellation**

Lease cancellation proceedings for non-producing leases may be initiated for operational violations, after the lessee has been notified that a violation is continuing beyond the 60-day or 20-day maximum period provided for in the regulations. The 60-day maximum is for the typical operating violations while the 20-day maximum is for failing to permit lawful Federal entry or inspection of the leasehold, knowingly failing to notify BLM of the first lease production, preparing false reports or for stealing or accepting stolen oil.



If the leasehold contains a well capable of producing in paying quantities or is covered by an approved agreement which provides for such a well, the lease may be cancelled only by judicial proceedings.

### **g. Appeal Rights**

Any party adversely affected by a notice, order or decision of a BLM officer may request an administrative review before the BLM State Director. Any party adversely affected by a decision of the State Director may appeal that decision to the Interior Board of Land Appeals.

BLM's Office of the Inspector General has organized a panel of the best federal and private sector experts to review the agency's performance in the areas of environmental protection, land and water management, and resource development. This panel will evaluate the results of the agency's work over the past year.

### **d. Recent Investigations of Federal Government Activities in Indian Country**

In February 1993 the Special Committee of Investigation of the Select Committee on Indian Affairs initiated a comprehensive investigation of the BLM and Interior's overall relationship with American Indians. The Special Committee's focus was the field with viewing natural resources management activities, including all areas of natural resources including: the implementation of accounting and finance, health programs, housing, job employment and other services. The focus of the Bureau of Land Management, the Corporation Commission focused on BLM's activities and operations of oil and gas wells on Indian lands. BLM's role in the acquisition of Black Rock, 1992, and previous reports to the Committee following the hearing. The committee filed the Committee Report and Letter of the investigation.

In its November 1993 report the Committee found that the treatment of the Indians and their employees violated the interests of the Indians by failing to provide all and equal benefits. The Committee findings pointed primarily to potential conflicts between the Corporation Commission and the BLM in the administration and oversight of tribal lands regarding the BLM's legal responsibility of the transfer of lands purchased from the Indians at low prices.

The Committee charged that BLM had not fully followed the policy of giving lands to Indians connected with the reservation and/or areas with BLM offices.



### **III. FACTORS LEADING TO BLM PROGRAM REVIEW**

A number of factors provided the impetus for BLM to evaluate its oil and gas oversight program with respect to the enforcement of standards, requirements for production accountability, and priority for Indian lands.

These include investigations and findings of a Senate investigative committee, the Office of the Inspector General (OIG) and the General Accounting Office (GAO) as well as BLM's own internal reviews. The investigations conducted by the Senate, OIG and GAO and their findings are summarized below.

BLM will soon complete an organizational study of the law enforcement program. Among other factors, this review was prompted by the findings of the Senate Committee and the Inspector General. The review is assessing the placement of the program within BLM's organizational structure, how well it currently works, and is developing any needed recommendations for improvement. BLM will release the results of the study by mid year.

#### **A. Senate Investigation of Federal Government Activities on Indian Lands**

In February 1988 the Special Committee on Investigations of the Select Committee on Indian Affairs initiated a comprehensive investigation into the Federal Government's relationship with American Indians. The Special Committee on Investigations was charged with reviewing natural resources management activities, including royalty management, as well as contracting, facilities management, accounting and finance, health programs, housing, law enforcement and other activities. With respect to the Bureau of Land Management, the Committee's investigation focused on BLM's detection and prevention of oil and gas theft on Indian lands. BLM testified before the Committee on May 8, 1989, and provided reports to the Committee following that hearing. In November 1989 the Committee issued a Final Report and Legislative Recommendations.

In its November 1989 report the Committee found that the Department of the Interior had not adequately protected the interests of the Indians by failing to prevent oil and gas thefts. The Committee's findings focused primarily on potential thefts by Koch Oil. The Committee's investigation pointed to possible mismeasurement and fraudulent reporting by Koch field representatives of the amount of crude oil purchased from the Indians at lease sites.

The Committee charged that BLM has not taken adequate steps to detect theft and to report suspected theft to appropriate law enforcement officials.



## **B. GAO and OIG Investigations**

The OIG and the GAO have also conducted investigations of BLM's Inspection and Enforcement Program during the past year. A draft report on the GAO investigation finds that BLM does not fully verify production, that management controls are inadequate and that interagency cooperation is inadequate. The OIG in its final report of November 1989 raised concerns about BLM's ability to ensure that actual production quantities were being accurately reported to the BLM. It found that BLM needs to conduct more verifications and comparisons of quantities of oil and gas documented on run tickets and gas charts with quantities reported to MMS. OIG also found that BLM needs to improve consistency in the levying of assessments, penalties and other enforcement actions for non-compliance with environmental protection requirements.



#### **IV. SPECIFIC INITIATIVES TO STRENGTHEN PROGRAM**

As a result of its program review, BLM has developed or is pursuing specific initiatives in a number of areas which are intended to strengthen the inspection and enforcement program and improve service to the Indians.

Following is a discussion of the actions being taken by BLM to improve its inspection and enforcement program and an explanation of the issues which these actions are intended to address. (Listed behind each item is the organization that identified the problem, i.e., Senate Select Committee, Inspector General, GAO, BLM.)

the manager of the oil and gas functions from BLM to retain law enforcement authority on Indian lands.

Action Taken:

##### **(1) Transfer of law enforcement authority from BLM**

BLM initiated a review of the Congressional language to ensure it clearly left BLM with criminal investigation authority on Indian lands for oil and gas operations. The review was approved in August 1983. All BLM offices have been advised of this authority and have been instructed to use it where appropriate. This modification should eliminate confusion over which agency should conduct criminal investigations for Indian oil and gas activities, and permit faster response to complaints filed on Indian lands.



## A. Enforcement Authority *(Continued)*

**Issue:** (BLM/Senate)

**Ambiguity with Respect to BLM Investigative Authority on Indian Lands.**

BLM's basic law enforcement authority for Federal lands is derived from the Federal Land Policy Management Act of 1976. However, the Act specifically excluded Indian lands. The Federal Oil and Gas Royalty Management Act of 1982 gave the Secretary criminal investigative authority on Indian lands for oil and gas operations. However, until recently, BLM did not interpret the Secretarial delegation of authority pursuant to the merger of the onshore oil and gas functions into BLM to include law enforcement authority on Indian lands.

**Action Taken:**

**BLM Investigative Authority Clarified.**

BLM initiated a revision to the Departmental Manual to make it clear that BLM has criminal investigation authority on Indian lands for oil and gas operations. The revision was approved in August 1989. All state offices have been made aware of that authority and have been instructed to use it where appropriate. This modification should eliminate confusion over which agency should conduct criminal investigations for Indian oil and gas activities, and permit faster response to suspected theft on Indian lands.

- place greater responsibility with the operator;
- ensure timely identification of potential enforcement and implementation of corrective actions;
- provide a paper trail for investigation and prosecution.



## A. Enforcement Authority (Continued)

### Issue: (Senate)

**BLM must rely on purchaser measurements of oil sales.**

In some cases where low oil volumes are being produced, producers allow purchasers to measure and load oil on leases with storage tanks without the producer being present. Since producers accept the purchasers' measurements without verification, the BLM, in turn, must accept the purchasers' numbers. This practice can lead to discrepancies between measured and reported production resulting in over or underpayment of royalties.

### Action Taken:

**Rulemaking actions proposed to place more responsibility on operators to independently verify purchaser measurement and submit records for BLM review.**

BLM is drafting a revision to Onshore Order No. 3, Site Security, to specify the requirements for self-inspection including regular measurement by the producer of lease production and maintenance of measurement records by the oil and gas industry. This should result in the following benefits:

- eliminate BLM's reliance on purchaser measurements;
- provide a measurement against which the purchaser's measurement can be compared;
- place greater responsibility with the operator;
- ensure timely identification of potential mismeasurement and implementation of corrective action;
- provide a paper trail for investigation and prosecution.



## B. Policy and Guidance to Field Offices

**Issue:** (Senate/BLM)

**Poor coordination between BLM inspection and enforcement (I&E) and law enforcement (LE) staffs on theft reports.**

Until recently BLM did not interpret the Secretarial delegation of authority to include criminal investigative authority on Indian lands. Consequently, coordination between BLM I&E and LE staff, especially for suspected criminal activity on Indian lands, has been limited and inconsistent. As indicated above, BLM's authority was clarified by an August 4, 1989, amendment to the Department Manual.

**Action Taken:**

**Procedures and guidelines for theft investigation and reporting established. Co-ordination procedures established.**

In March 1989 BLM appointed a task force on coordination between the inspection and enforcement and law enforcement staffs. The task force group was composed of BLM management, inspection and enforcement and law enforcement personnel. The task force report with recommendations was issued as internal instructions December 1, 1989. The instructions require, among other things, cross-training of inspection and enforcement and law enforcement personnel in the field offices and increased interaction and coordination between the two groups.

A document titled "Oil and Gas Theft Reporting Guidelines and Format" was completed and sent to the field offices with instructions for use in December 1989. It provides detailed procedures for field offices to follow when known or suspected theft or fraud has occurred and a format for documenting details of the theft or fraud.

BLM, through its Farmington, New Mexico Resource Area Office is developing an automated tracking system for theft reporting. Data from theft reports and subsequent action taken by the BLM will be entered into a database. This will allow BLM to track the status of each theft and identify problem leases or geographic areas. Once developed, the system will be evaluated and if appropriate distributed BLM-wide.

These measures should ensure

- improved coordination between I&E and LE personnel;
- timely follow-up of reported theft;
- standardized documentation for more effective prosecution of cases.



## B. Policy and Guidance to Field Offices (Continued)

**Issue: (BLM)**

**No BLM personnel designated as contacts for theft reports.**

Indian lessors do not have a specific contact within the BLM to report known or suspected thefts of oil from their lands.

**Action Taken:**

**Indian tribes and allottees notified of BLM contact.**

Instructions to the field offices dated September 1, 1989, requires field offices to contact all Tribes and allottees and provide them with a specific BLM contact for reporting known or suspected thefts of oil from their lands. BLM is in the process of notifying 34 tribes and 27,000 allottees.

### *Increased Inspections*

BLM, with the assistance of the NMFS, identified all Federal and Indian leases for which Koch was an operator, a purchaser of oil or gas, a payer of royalty, or an interest holder. A total of 917 leases and agreements with Koch involvement were identified nationwide. BLM issued instructions to its field offices on June 16, 1989, to prioritize and increase the number of inspections of Koch leases under its jurisdiction. Specifically, field offices were directed to complete all high priority lease inspection for leases where Koch was involved as soon as possible and give top priority response to NMFS exception reports for Koch leases. A total of 460 inspection activities were performed on leases and agreements with Koch involvement, some before and some after the Senate investigation.



## B. Policy and Guidance to Field Offices (Continued)

### Issue: (Senate)

**BLM did not identify potential thefts by Koch Oil on Indian lands in Oklahoma.**

The Senate Committee alleged that Koch Oil has been mismeasuring and misreporting oil and gas production from Indian leases in Oklahoma; the alleged thefts uncovered by the Committee were not previously identified by BLM. (The Senate investigative findings have been forwarded to the U.S. Department of Justice and the U.S. Attorney in Oklahoma for action.)

### Actions Taken to Date:

**Inspections of Koch operations increased.**

**Independent gaugings of Koch sales conducted.**

**Detailed analysis of Koch records completed and discrepancies investigated.**

**Investigation of Koch is ongoing.**

### ***Increased inspections***

BLM, with the assistance of the MMS, identified all Federal and Indian leases for which Koch is an operator, a purchaser of oil or gas, a payor of royalty, or an interest holder. A total of **917 leases and agreements** with Koch involvement were identified nationwide. BLM issued instructions to its field offices on June 16, 1989, to prioritize and increase the number of inspections of Koch leases under its jurisdiction. Specifically, field offices were directed to complete all high priority lease inspections for leases where Koch was involved as soon as possible and give top priority response to MMS exception reports for Koch leases. A total of **460 inspection activities** were performed on leases and agreements with Koch involvement, some before and some after the Senate investigation.



## B. Policy and Guidance to Field Offices (continued)

### Koch Oil issue (continued)

#### *Independent Gaugings of Koch Sales*

BLM conducted independent gaugings on at least one shipment of oil from 25% of leases with Koch involvement. Only 3 minor production accountability discrepancies in Koch's current measurement activities were identified as a result of these independent gaugings.

#### *Record Reviews*

In addition, BLM randomly selected 42 leases with Koch involvement and compared purchaser and producer measurement records with production reported to MMS for a period prior to the hearings, but still during the Committee investigation. This record review revealed no discrepancies or irregularities in production accountability for the period reviewed.

BLM is developing a standardized training program for personnel who conduct environmental investigations for oil and gas operations. A new course is being developed at the Violence Training Center as well as on the job training assignments. All personnel conducting such assignments will be required to meet the standards of the training. The training program will help ensure consistent application of environmental requirements.

The State Offices are implementing state supervisory State level program oversight through use of Technical and Procedural Manuals. The BLM Washington Office will promulgate a significant number of field issued procedural notices by 1990 to ensure that assessments and penalties are being applied consistently and appropriately.

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## **B. Policy and Guidance to Field Offices (Continued)**

### **Issue: (OIG)**

**Improvements are needed to ensure that lease operators comply with environmental requirements.**

The OIG found that some lease operators were negligent regarding environmental protection and that this was due in part to inconsistent implementation of enforcement actions by BLM field offices. The OIG states that this negligence has resulted in environmental damage and threats to public health and safety.

### **Actions Taken:**

**Standardized training requirements for personnel inspecting for environmental protection and compliance developed.**

**Oversight of State offices intensified to ensure consistency in program implementation.**

**Evaluation of need for additional immediate assessments initiated.**

BLM is developing a standardized training program for personnel who conduct environmental inspections for oil and gas operations. A new course is being developed at the Phoenix Training Center as well as on the job training instruction. All personnel conducting such inspections will be required to meet the standards of the training. This training program will help ensure consistent application of environmental requirements.

The State Offices are implementing more aggressive State level program oversight through use of Technical and Procedural Reviews. The BLM Washington Office will participate in a significant number of field initiated procedural reviews in FY 1990 to ensure that assessments and penalties are being applied consistently and appropriately.

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## B. Policy and Guidance to Field Offices (Continued)

### Issue: Environmental Compliance (Continued)

#### Actions Taken (continued)

As discussed under the program description, BLM already has substantial authority and provisions to levy assessments and penalties for violations. However, BLM has initiated a study to determine whether the imposition of immediate monetary assessments in certain additional circumstances would significantly increase the level of compliance with regard to less serious violations. It is the policy of this Administration to strictly enforce provisions intended to address continued non-compliance. BLM will make a determination of whether or not additional immediate assessments are needed by the end of FY 1990 and rulemaking actions will be initiated as appropriate.

The size of major loss to the Federal Government is, however, very different in scope of scale than the amount of loss which would be unique to a tribe or allotted. For example, the impact of a few hundred dollars in unpaid royalty is much greater to an individual's allotted lands than to a Tribe's lands or the Federal government. Therefore, while the agency inspection and enforcement strategy are effective in meeting the mandates of PLAWMA and BLM's overall inspection and enforcement responsibilities, the priorities do not address the scale of risk specific to the Indians.

#### Action Items

#### Section of Inspection and Enforcement Strategy

BLM currently has a task force working on revise its inspection and enforcement strategy. The Director will issue a decision on reorganization of task force no later than January 15, 1990. The proposed revisions to the strategy are expected to include:

- \* Requirement for BLM inspection to utilize purchased enforcement services.
- \* Additional requirement for BLM inspection to review management and under mining reports.



## **B. Policy and Guidance to Field Offices (continued)**

**Issue: (Senate/OIG/GAO)**

**Inadequate assurance of production accountability and priority for Indian Inspections**

The current inspection and enforcement strategy was issued in mid-1987 to ensure that the FOGRMA mandate to inspect at least annually all lease sites with significant production and those with a history of non-compliance could be met, as well as BLM's other inspection responsibilities. The inspection priorities, which apply equally to Federal and Indian lands, and procedures required in the strategy especially for production accountability have been implemented for approximately a year and a half.

The number of inspectors is limited and the allocation of finite resources must be based on the above system of priorities which utilizes risk of loss as the primary criterion. The risk of major loss to the Federal Government is, however, very different as a matter of scale than the amount of loss which would be major to a tribe or allottee. For example, the impact of a few hundred dollars in unpaid royalty is much greater to an individual allottee's income, or even a Tribe's, than on the Federal government. Therefore, while the existing inspector force and strategy are effective in meeting the mandates of FOGRMA and BLM's overall inspection and enforcement responsibilities, the priorities do not address the scale of risk specific to the Indians.

**Action Taken:**

**Revision of Inspection and Enforcement Strategy.**

BLM currently has a task force working to revise its inspection and enforcement strategy. The Director will make a decision on implementation of task force recommendations by March 15, 1990. The proposed revisions to the strategy are expected to include:

- Requirement for BLM inspectors to witness purchaser measurement actions.
- Additional requirements for BLM inspectors to review measurement and meter testing reports.



## B. Policy and Guidance to Field Offices (continued)

- Modifying the non-compliance history criterion for high priority leases to ensure concentration of resources on real problem operators.
- Increasing the frequency of inspections on Indian lands.
- Adjusting as necessary the staffing and resources needed to accomplish BLM's inspection and enforcement goal.
- Adopting requirements to ensure balanced inspection accomplishments, including drilling, production and abandonment.

The Washington Office will enhance its role in the field office program review and guidance has increased for addressing program issues that arise at the field level and the field of program implementation has been strengthened over actual compliance requirements.

### Program Review

#### Washington Office Program Review

The Washington Office will enhance its participation in State level program reviews and improve the way the actual conduct of energy review is considered on a timely basis. Additional technical guidance and support to field offices provided by the Washington Office in the form of manual and resource letters, inspection site visits, work and training through the Director's Training Council and industry forums and contact will be prioritized. Program reviews conducted by individual state offices cover those aspects thought to be the weakest in the particular state. These reviews tend to be specific, whereas the Washington Office reviews are of a more general nature. Washington Office participation ensures statewide coverage of problem areas affecting all states. The Fiscal Year 1993 budget incorporates sufficient funds to allow each Region Office staff additional new sufficient funds of time for conducting program reviews. This should ensure adequate program implementation and organizational level, detailed industry contacts, and extensive BLM field expertise.



## C. Internal Controls

**Issue: (BLM/GAO/OIG)**

**Inadequate support to field resulting in inadequate program implementation.**

The lack of Washington Office inspection and enforcement program oversight and guidance has resulted in inadequate program implementation at the field level and the lack of consistent program implementation has led to confusion over actual compliance requirements.

**Action Taken:**

**Increased Washington office support to field.**

The Washington Office will enhance its participation in State level program reviews and increase and diversify the actual number of program reviews it conducts on a yearly basis. Additional technical guidance and support to field offices from the Washington office in the form of manual and handbook releases, instruction memoranda and training through the Phoenix Training Center and industry conducted courses will be provided. Program reviews conducted by individual state offices cover those aspects thought to be the weakest at the particular office. These reviews tend to be specific whereas the Washington office reviews are of a more general nature. Washington staff participation ensures consistent treatment of problems across all states. The Fiscal Year 1990 budget incorporates sufficient funds to allow Washington Office staff assistance to a significant number of states for conducting technical program reviews. This should ensure consistent program implementation at all organizational levels; decrease industry confusion; and enhance BLM field expertise.



## C. Internal Controls (Continued)

### Issue: (OIG/BLM)

**Lack of managerial technical expertise has led to variations in program implementation.**

The lack of technical expertise of management and supervisors has caused variations in the implementation of the inspection and enforcement programs by individual states.

### Actions Taken:

**Washington participation in field meetings to explain requirements.**

**Training for managers provided at the Phoenix Training Center.**

**Internal Control Review scheduled.**

**Manuals and Handbooks being developed.**

Since Onshore Orders 3, 4, and 5 were published final in the Federal Register in February 1989, the Washington Office has participated in field office meetings with inspection personnel in Colorado, New Mexico, Utah, and Wyoming to explain the new requirements of the Orders and ensure field office understanding and consistent application. BLM is also continuing the instruction of inspection and enforcement and associated courses at the Phoenix Training Center, including, as examples, Courses 3000-18 Production Inspections, 3000-17 Drilling Inspections, and developing new courses on operational approvals and inspection and enforcement for management personnel in order to ensure consistent presentation of nationwide policy. Technical supervisory personnel and line managers needing additional inspection and enforcement training will be identified and scheduled for appropriate training by October 1, 1990. There are 127 targeted trainees including line managers and technical supervisors.

In addition, the BLM has or will initiate the following which further addresses these weaknesses:

- The BLM has scheduled an Internal Control Review for the Inspection and Enforcement Program on Indian Lands to be completed by July 1991.
- BLM will issue manual and handbook guidance for published Onshore Oil and Gas Orders. Outstanding manuals and handbooks for existing Orders will be issued within one year of completion of the Orders.



## D. Coordination With Other Agencies

**Issue:** (BLM/Senate/OIG/GAO)

**Improved interagency coordination needed for effective enforcement.**

BLM has identified the need to improve BLM/MMS interagency responsiveness, coordination and information sharing.

**Action Taken:**

**Interagency Memorandum of Understanding approved and Interagency Steering Committee established to address coordination problems.**

BLM, MMS and BIA approved an interagency Memorandum of Understanding (MOU) on December 19, 1988. The MOU was developed for "the purpose of achieving common standards and methods for creating a smooth working relationship between the Bureaus and for achieving the common goal of improved minerals accountability on Federal and Indian leases." The MOU clarifies the division of responsibilities between the Bureaus and provides for information exchange and mutual review of regulations and other policy documents. A steering committee comprised of high level management representatives from each agency meets on a regular basis to discuss and resolve issues of mutual concern and interest and to recommend modifications of the MOU to increase the effectiveness of interagency coordination.

BLM plans to establish a high level position located at the MMS office in Denver to coordinate immediate interagency actions regarding suspected fraudulent reporting and measurement and coordinate expeditious follow-up on other production accountability discrepancies identified by either agency, particularly those affecting Indian interests. This position is expected to be established by the end of the fiscal year.



## D. Coordination with Other Agencies (continued)

**Issue: (BLM)**

**Indian lessors require better understanding of potential theft problems.**

BLM has identified the need to improve Indian lessor understanding of oil and gas operations to increase awareness of potential incidences of theft, improve accuracy of theft reporting and increase cooperation with lessors in identifying potential theft problems.

**Action Taken:**

**Outreach program to Indians established.**

BLM is working with the MMS and BIA through the steering committee to establish a coordinated outreach program to Indian tribes and allottees on oil and gas operations to provide them with a better understanding of potential theft. This proposal was addressed at the August 16, 1989 Steering Committee meeting. The agencies agreed that BLM should expand upon and participate in the existing MMS outreach program which is specific to royalty accounting. BLM has assigned a field manager to work with MMS on this joint initiative. The outreach program should result in more accurate identification of suspected theft, improve dialogue and cooperation with Indian lessors and provide another layer of monitoring in the field. BLM's efforts to notify tribes and allottees of BLM contacts for theft reporting were discussed earlier in this document.

\* BLM is making personnel available to conduct education programs of industry and tribal organization training sessions.

\* The PISC will make space available in its newsletter for BLM articles on regulations, safety, security and theft reporting.

\* The Education Committee of AII will review BLM's proposal for certification of transportation hauling clauses. BLM attended AII's annual meeting in October to discuss the proposal.



## **E. Coordination with Industry**

### **Issue: (Senate/BLM)**

**Improved coordination with industry needed to improve site security on Federal leases.**

In reviewing site security aspects of the inspection and enforcement program in light of specific concerns of the Committee, BLM recognized the need to improve cooperation and coordination with industry security personnel to improve implementation of site security requirements and standards on Federally supervised leases.

### **Action Taken:**

#### **BLM-Industry Cooperative Actions Developed.**

BLM initiated meetings with the Rocky Mountain Oil and Gas Association (RMOGA) in July 1989, with the Petroleum Industry Security Council in August, with RMOGA and industry security representatives in September 1989, and with the American Petroleum Institute in October 1989, to enhance cooperation on leasehold security and solicit ideas from producers on improving the security of production operations. Agreement was reached on the following cooperative actions:

- BLM will evaluate and distribute agency-wide if appropriate the Petroleum Industry Security Council's (PISC) training film and courses on oil field theft for use in the training of BLM oil and gas inspectors and law enforcement special agents.
- BLM is making personnel available to instruct sessions on regulations at industry and trade organization training sessions.
- The PISC will make space available in its newsletter for BLM articles on regulations, orders, site security and theft reporting.
- The Education Committee of API will review BLM's proposal for certification of pumper/transporter training courses. BLM attended API's annual meeting in October to discuss the proposal.



## V. COMMENTS ON SENATE RECOMMENDATIONS

### Recommendation 1

Transfer all Indian royalty distribution responsibilities of the Bureau of Indian Affairs (BIA) and all Indian lease inspection responsibilities of the Bureau of Land Management (BLM) to the Minerals Management Service (MMS), thus consolidating the management of all Indian mineral resources and related royalties into one agency.

### Comments

The general concept of consolidating certain Indian responsibility functions has merit. Since MMS already has the responsibility for Federal royalty distribution, transferring the responsibility for Indian royalty distribution to MMS may warrant consideration.

However, with regard to inspection responsibilities, BLM is concerned that the Committee recommendation does not take into account the critical fact that oil and gas operations permit approvals, reservoir management functions and inspection and enforcement are highly integrated and interdependent functions. BLM approves all Indian oil and gas operations, and provides technical advice on proposed development agreements. Petroleum engineers, who process the approvals, and monitor for protection of Indian oil and gas reservoirs, and inspectors, who inspect for approval compliance, must routinely interface and work closely together for an effective program. Adoption of the Senate recommendation would split these functions between two agencies. If approvals and inspections are split, the necessary interagency coordination required would be complicated and the critical daily interface between inspectors and engineers would be lost. Logistically, two complete sets of well and lease records would need to be maintained by the agencies. Numerous correspondence copies would need to be sent between offices to maintain complete records, a factor which often leads to incomplete information even under the best circumstances.

In addition, as described earlier in the report, the inspection function goes well beyond production accountability and includes drilling, abandonment and environmental inspections. Where Indian and Federal leases occur within the same area, two sets of inspectors from different agencies would be working the same area under this proposal.

With the above management considerations taken into account, BLM cannot support this recommendation.



## **Recommendation 2**

Mandate that all run tickets issued by purchasers of crude oil produced on Indian and Federal lands contain certain minimum information, including the quantity and quality of oil purchased and identification of the personnel and vehicles involved in removing the oil. Each run ticket must be certified as true and full by an officer of the corporation purchasing the crude oil. Similar certifications will be required for meter charts issued by purchasers of natural gas. Federal criminal laws will set penalties for any forgeries or false statements made by any party on the run ticket, meter chart, or related papers, failures by the purchasing company to leave a copy of the run ticket, meter chart, or related papers at the lease or facility from which the oil or gas is removed or with the operator of the lease facility, and failures to maintain run tickets and meter charts.

## **Comments**

BLM agrees that requiring corporate officer certification of run tickets could help to ensure the accuracy of those documents by placing a direct responsibility on purchaser management for the actions of its field employees. In addition, the criminal penalties proposed would discourage purchasers from fraudulent measurement or reporting. However, the administrative burden to comply with this recommendation would be considerable. Approximately 200,000 run tickets for sales of Federal oil and 50,000 run tickets for Indian oil are completed each year by purchasers. In addition, approximately 677,000 gas charts for Federal gas production and 43,000 charts for Indian gas production are generated each year.

BLM believes that a more effective method of assuring the accuracy of purchaser measurement and of discouraging fraud is to place more responsibility on the operator for verification of the purchaser's measurement. This would more fully address the concern of the Committee that purchasers often obtain oil in the oil fields without the producer being present to verify the measurement of the oil. Since the producer owns three-fourths to seven-eighths of the oil, it has the greatest incentive to ensure that oil or gas sold is accurately measured and reported. The Committee has indicated that the existing honor system is no longer acceptable. BLM is working to propose rulemaking changes which will place greater responsibility for independent check of purchaser measurement and reporting on the producer with those efforts checked through BLM's inspection and enforcement program.



### **Recommendation 3**

Mandate that all purchasers of Indian or Federal crude oil or natural gas submit an annual report providing detailed information as to the "short" and "long" figures reported to such purchaser by its gaugers, employees or other representatives charged with receiving crude oil or natural gas from pipelines or wells located on Indian or Federal leases. The report will be certified as true, subject to Federal criminal laws, by an officer of the purchaser and will be submitted to MMS, the new agency responsible for inspecting Indian leases.

### **Comments**

The Committee has highlighted a generally accepted practice in the oil industry to tolerate variations within limits in measurement of production which results in the "overages" and "shortages" in production accountability. While the Senate investigation pointed out that for many companies, those figures most often roughly even out, there is the potential for abuse of the practice of purchasers often measuring sales quantities without a check by the producer, if not the government. BLM agrees that this situation must be rectified to the extent practical. However, BLM does not believe that submission and review of the short/long reports is the best way to address the problem. This proposal would require significant increased costs to DOI for establishing a new area of report review responsibilities. Considerable additional record keeping would be costly. In addition, tracing overages/underages to specific leases and wells would be difficult.

BLM believes that proposals currently under review by BLM to have the producer witness sales of his/her production, to have BLM compare a significant number of those records with reported production, and to spotcheck producer/purchaser measurement actions should, if adopted, prevent significant overages and shortages from occurring.



## **Recommendation 4**

Mandate that MMS, the new Department of the Interior agency responsible for inspecting Indian leases, periodically inspect meters relating to oil and gas production on Indian lands, and issue mandatory penalties to any purchaser whose meters are defective or do not meet minimum standards.

## **Comments**

BLM agrees that periodic inspections of meters is an important part of ensuring the accountability of gas production. BLM already does frequent and routine inspections of Tribal and Allottee oil and gas operations. Approximately, 14 percent of BLM's annual inspections are done on these lands, covering more than 75 percent of Indian oil production and more than 40 percent of Indian gas production each year. Additionally, the BLM has recently issued Oil and Gas Onshore Orders Nos. 4, Oil Measurement, and 5, Gas Measurement, that establish standards, corrective actions and correction timeframes for oil and gas production meters. The BLM already has a penalty system for failure to correct meter deficiencies.



## **Recommendation 5**

Mandate that the Federal Bureau of Investigation (FBI) and MMS, the new Department of the Interior (DOI) agency responsible for inspecting Indian leases, create a joint working group to increase the flow of theft information between the two agencies. The FBI will also provide training seminars for DOI personnel involved with on-site inspection or investigations of natural resource theft.

## **Comments**

Criminal investigative authority on Indian lands and the inspection and enforcement functions currently reside with a single agency. BLM agrees that it is important to coordinate and work with the FBI, local law enforcement agencies and industry trade organizations dedicated to oilfield security. This cooperative effort will maximize information sharing and facilitate cross training. BLM has recently shared its new oilfield theft reporting format with the FBI to obtain its views and comments and invited the FBI to discuss its future working relationship with BLM. In addition, the BLM has also met with the Petroleum Industry Security Council regarding available training programs on oil field theft. The BLM is currently evaluating those available training courses for widespread use within the BLM.

The BLM believes that retaining the inspection and law enforcement functions within a single agency is the most effective and efficient way to protect the Indians' interests.



## **Recommendation 6**

Amend the Federal Oil and Gas Royalty Management Act (FOGRMA) to eliminate the cure period for civil penalties and to clarify that civil penalties can be issued for, among other things, underpayment of royalties, whether intentional or otherwise, and failure of parties to provide records to MMS within a reasonable time period after MMS demands them.

## **Comments**

Substantial immediate enforcement tools are already in effect for BLM enforcement responsibilities. These responsibilities do not include enforcement for underpayment of royalties, which is an MMS responsibility. BLM's immediate enforcement tools include immediate monetary assessments for specific violations which are of a serious nature such as drilling without well control equipment. Those tools also include immediate shut-in of operations where those operations could result in immediate, substantial, and adverse impacts on the environment, public health and safety, production accountability, or royalty income. In addition, current regulation provides for significant civil penalties for any person who knowingly and willingly prepares or submits false, inaccurate, or misleading reports; takes, removes, transports, uses or diverts oil or gas without valid legal authority; or purchases, accepts or conveys any oil or gas known or suspected to be stolen.

For violations of a less serious nature, BLM believes that in most cases establishment of an abatement period is a successful tool for obtaining compliance. However, BLM recognizes that there may be additional instances where immediate assessments or penalties would improve enforcement effectiveness. It is the policy of this Administration to vigorously enforce measures targeted at habitual offenders. Therefore, BLM is working to evaluate the need for any such additional immediate assessments or penalties.



## **Recommendation 7**

Amend FOGRMA to allow MMS the power to cancel under certain conditions Indian and Federal leases if lessees violate lease provisions and such violations lead to royalty underpayment.

### **Comments**

BLM agrees that lease cancellation is an important enforcement tool. Existing oil and gas lease terms and conditions provide lessee liability for royalty underpayment. The “default” provision contained in the lease allows lease cancellation if the lessee fails to comply with any provision of the lease. Therefore, authority exists to cancel leases for lease violations that lead to royalty underpayment.

For one agency to issue leases and approve operations, and another to inspect and cancel leases would cause significant administrative and technical coordination problems. Lease cancellation could occur without consideration of environmental impacts of ongoing operations since MMS does not have onshore environmental protection responsibility. Lease cancellation by MMS may also not take into account adequate reservoir development considerations and resource conservation practices, also on-shore responsibilities of BLM. BLM believes it would be prudent to leave current lease cancellation responsibilities with BLM and enhance MMS/BLM agency coordination through the use of the BLM/MMS/BIA Interagency Coordination Committee.



## **Recommendation 8**

Amend FOGRMA to allow rewards for information leading to recovery of royalty and other payments on tribal, allottee and Federal leases.

## **Comments**

BLM agrees that such a reward system may increase identification of potential problems and the resulting recovery of lost royalties due.

## **Recommendations 9-10**

These recommendations are not pertinent to BLM's areas of responsibility.



## **Recommendation 11**

Provide MMS authority to issue penalties, cancel leases under certain conditions, provide rewards, and enter into cooperative agreements relative to non-oil and gas tribal, allottee, and Federal leases.

## **Comments**

BLM agrees that if the previous recommendations are implemented, adoption of this recommendation would provide for consistent administration of all Indian and Federal oil and gas and non-oil and gas leases. However, BLM's comments on Recommendations 1, 6, and 7 would still apply to this recommendation. With these considerations, BLM does not support this recommendation.



